TRANSACT TECHNOLOGIES INC
Form 10-Q
November 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2016
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 0-21121

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	06-1456680 (I.R.S. Employer Identification No.)
One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT (Address of Principal Executive Offices)	06518 (Zip Code)
(203) 859-6800 (Registrant's Telephone Number, Including Area Code)	

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of October 31, 2016, the number of shares outstanding of the Company's common stock, $0.01 par value, was 7,383,364.

TRANSACT TECHNOLOGIES INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

		September 30, 2016		December 31, 2015
Assets:		(In thousands, except share data)		
Current assets:				
Cash and cash equivalents	$	2,199	$	4,473
Accounts receivable, net		10,478		7,174
Inventories		9,439		11,296
Prepaid income taxes		690		-
Deferred tax assets		1,672		1,932
Other current assets		431		437
Total current assets		24,909		25,312
Fixed assets, net of accumulated depreciation of $18,991 and $18,336, respectively		2,420		2,507
Goodwill		2,621		2,621
Deferred tax assets		1,311		1,213
Intangible assets, net of accumulated amortization of $3,024, and $2,779, respectively		643		888
Other assets		38		28
		7,033		7,257
Total assets	$	31,942	$	32,569
Liabilities and Shareholders' Equity:				
Current liabilities:				
Accounts payable	$	5,614	$	2,642
Accrued liabilities		2,129		2,838
Income taxes payable		5		245
Deferred revenue		132		604
Total current liabilities		7,880		6,329
Deferred revenue, net of current portion		76		77
Deferred rent, net of current portion		188		189
Other liabilities		240		246
		504		512
Total liabilities		8,384		6,841
Commitments and contingencies (Note 7)				
Shareholders' equity:				
Common stock, $0.01 par value, 20,000,000 shares authorized; 11,185,331 and 11,170,881 shares issued,		112		112

respectively; 7,383,364 and 7,782,292 shares outstanding, respectively				
Additional paid-in capital		29,580		28,921
Retained earnings		23,390		22,956
Accumulated other comprehensive loss, net of tax		(101)		(80)
Treasury stock, at cost, 3,801,967 and 3,388,589 shares, respectively		(29,423)		(26,181)
Total shareholders' equity		23,558		25,728
Total liabilities and shareholders' equity	$	31,942	$	32,569

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Net sales	$14,474	$14,172	$43,632	$47,560
Cost of sales	8,559	7,881	25,849	27,616
Gross profit	5,915	6,291	17,783	19,944
Operating expenses:				
Engineering, design and product development	1,133	766	3,458	2,494
Selling and marketing	1,808	2,137	5,460	6,060
General and administrative	1,737	1,823	5,589	5,665
Legal fees associated with lawsuit (Note 7)	-	-	-	1,738
	4,678	4,726	14,507	15,957
Operating income	1,237	1,565	3,276	3,987
Interest and other income (expense):				
Interest, net	(7)	(7)	(18)	(23)
Other, net	(3)	11	13	(1)
	(10)	4	(5)	(24)
Income before income taxes	1,227	1,569	3,271	3,963
Income tax provision	344	541	1,010	1,403
Net income	$883	$1,028	$2,261	$2,560
Net income per common share:				
Basic	$0.12	$0.13	$0.29	$0.33
Diluted	$0.12	$0.13	$0.29	$0.33
Shares used in per-share calculation:				
Basic	7,498	7,800	7,673	7,818
Diluted	7,549	7,848	7,724	7,844
Dividends declared and paid per common share:	$0.08	$0.08	$0.24	$0.24

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Net income	$883	$1,028	$2,261	$2,560
Foreign currency translation adjustment, net of tax	(3)	(8)	(21)	(4)
Comprehensive income	$880	$1,020	$2,240	$2,556

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30, 2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 2,261	$ 2,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	473	377
Incremental tax benefits from stock options exercised	(1)	(2)
Depreciation and amortization	962	1,077
Deferred income tax provision	238	1,202
Gain on the sale of fixed assets	(5)	(4)
Foreign currency transaction (gains) losses	(12)	4
Changes in operating assets and liabilities:		
Accounts receivable	(3,313)	(845)
Inventories	1,852	(644)
Prepaid income taxes	(695)	409
Other current and long term assets	(6)	(2)
Accounts payable	2,899	2,957
Accrued liabilities and other liabilities	(1,419)	(4,434)
Net cash provided by operating activities	3,234	2,655
Cash flows from investing activities:		
Capital expenditures	(454)	(491)
Proceeds from sale of fixed assets	8	4
Net cash used in investing activities	(446)	(487)
Cash flows from financing activities:		
Revolving credit line borrowings	-	2,500
Revolving credit line payments	-	(2,500)
Payment of dividends on common stock	(1,827)	(1,863)
Purchases of common stock for treasury	(3,242)	(1,020)
Proceeds from stock option exercises	23	42
Incremental tax benefits on stock options exercised	1	2
Net cash used in financing activities	(5,045)	(2,839)
Effect of exchange rate changes on cash and cash equivalents	(17)	(10)
Decrease in cash and cash equivalents	(2,274)	(681)
Cash and cash equivalents, beginning of period	4,473	3,131
Cash and cash equivalents, end of period	$ 2,199	$ 2,450
Supplemental schedule of non-cash investing activities:		
Capital expenditures funded by accounts payable	$ 175	$ 137

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited financial statements of TransAct Technologies Incorporated have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America to be included in full year financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the periods presented have been included and are of a normal recurring nature. The December 31, 2015 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2015 included in our Annual Report on Form 10-K.

The financial position and results of operations of our U.K. subsidiary are measured using local currency as the functional currency. Assets and liabilities of such subsidiary have been translated at the end of period exchange rates, and related revenues and expenses have been translated at the weighted average exchange rates with the resulting translation gain or loss recorded in accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets. Transaction gains and losses are included in other income (expenses) in the Condensed Consolidated Statements of Income.

The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year.

2. Inventories

The components of inventories are:

	September 30, 2016	December 31, 2015
	(In thousands)	
Raw materials and purchased component parts	$ 5,547	$ 6,627
Work-in-process	-	1
Finished goods	3,892	4,668
	$ 9,439	$ 11,296

3. Accrued product warranty liability

We generally warrant our products for up to 24 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product repairs and the related estimated cost of labor and material to make the necessary repairs.

The following table summarizes the activity recorded in the accrued product warranty liability during the nine months ended September 30, 2016 and 2015:

	Nine months ended September 30,			
		2016		2015
	(In thousands)			
Balance, beginning of period	$	277	$	287
Warranties issued		206		155
Warranty settlements		(200)		(201)
Balance, end of period	$	283	$	241

$180,000 of the accrued product warranty liability is classified as current in Accrued liabilities at September 30, 2016 in the Condensed Consolidated Balance Sheets. The remaining $103,000 of the accrued product warranty liability is classified as long-term in Other liabilities.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

4. Earnings per share

The following table sets forth the reconciliation of basic weighted average shares outstanding and diluted weighted average shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Net income	$883	$1,028	$2,261	$2,560
Shares:				
Basic: Weighted average common shares outstanding	7,498	7,800	7,673	7,818
Add: Dilutive effect of outstanding options as determined by the treasury stock method	51	48	51	26
Diluted: Weighted average common and common equivalent shares outstanding	7,549	7,848	7,724	7,844
Net income per common share:				
Basic	$0.12	$0.13	$0.29	$0.33
Diluted	$0.12	$0.13	$0.29	$0.33

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock options, restricted stock units and performance stock awards, when the average market price of the common stock is lower than the exercise price of the related stock award during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would be anti-dilutive. For the three months ended September 30, 2016 and 2015, there were 833,000 and 700,000, respectively, potentially dilutive shares consisting of stock awards that were excluded from the calculation of earnings per diluted share. For the nine months ended September 30, 2016 and 2015, there were 833,000 and 844,000, respectively, potentially dilutive shares consisting of stock awards that were excluded from the calculation of earnings per diluted share.

5. Shareholders' equity

Changes in shareholders' equity for the nine months ended September 30, 2016 were as follows (in thousands):

Balance at December 31, 2015	$25,728
Net income	2,261
Share-based compensation expense	473
Issuance of deferred stock units, net of relinquishments	151
Issuance of shares from exercise of stock options, net of tax benefit	24
Reversal of deferred tax asset in connection with stock options forfeited	11
Foreign currency translation adjustment	(21)
Dividends declared and paid on common stock	(1,827)

Purchase of common stock for treasury	(3,242)
Balance at September 30, 2016	$23,558

We paid a portion of the 2015 incentive bonus for the chief executive officer and chief financial officer in the form of 28,231 deferred stock units. Such deferred stock units were granted in February 2016 and were fully vested at the time of grant.

For the three months ended September 30, 2016, our Board of Directors declared a quarterly cash dividend of $0.08 per share, totaling $595,000, which was paid in September 2016 to common shareholders of record at the close of business on August 19, 2016. For the three months ended September 30, 2015, dividends declared and paid totaled $620,000, or $0.08 per share. For the nine months ended September 30, 2016 and 2015, dividends declared and paid totaled $1,827,000, or $0.24 per share, and $1,863,000, or $0.24 per share, respectively.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

5. Shareholders' equity (continued)

During the nine months ended September 30, 2016, we purchased 413,378 shares of our common stock for $3,242,000 at an average price per share of $7.84, under a stock repurchase program (the "Stock Repurchase Program") approved by our Board of Directors on February 25, 2016. Under the Stock Repurchase Program, we are authorized to repurchase up to $5,000,000 of our outstanding shares of common stock from time to time in the open market through December 31, 2017 at prevailing market prices based on market conditions, share price and other factors. We use the cost method to account for treasury stock purchases, under which the price paid for the stock is charged to the treasury stock account. Repurchases of our common stock are accounted for as of the settlement date.

6. Income taxes

We recorded an income tax provision for the third quarter of 2016 of $344,000 at an effective tax rate of 28.0%, compared to an income tax provision during the third quarter of 2015 of $541,000 at an effective tax rate of 34.5%. For the nine months ended September 30, 2016, we recorded an income tax provision of $1,010,000 at an effective tax rate of 30.9%, compared to an income tax provision during the nine months ended September 30, 2015 of $1,403,000 at an effective tax rate of 35.4%. Our effective tax rate for the third quarter of 2016 was lower than the third quarter of 2015 because it includes the benefit from the 2016 federal research and development credit ("R&D credit"). In 2015, the R&D credit was not renewed until December 2015, and as such, the benefit was not recorded until the fourth quarter of 2015.

We are subject to U.S. federal income tax as well as income tax in certain state and foreign jurisdictions. We have substantially concluded all U.S. federal income tax, state and local, and foreign tax regulatory examination matters through 2012. During 2013, an examination of our 2010 federal tax return was completed. However, our federal tax returns for the years 2013 through 2015 remain open to examination. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the Condensed Consolidated Financial Statements. No state or foreign tax jurisdiction income tax returns are currently under examination. As of September 30, 2016, we had $99,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. During the third quarter of 2016, we recognized $42,000 of previously unrecognized tax benefits as the statute of limitations on the use of the 2012 R&D credits expired during the third quarter of 2016.

7. Commitments and contingencies

On June 8, 2012, Avery Dennison Corporation ("AD") filed a civil complaint against us and a former employee of ours and of AD, in the Court of Common Pleas (the "Court") in Lake County, Ohio. The complaint alleged that we and this former employee misappropriated unspecified trade secrets and confidential information from AD related to the design of our food safety terminals. The complaint requested a preliminary and permanent injunction against us from manufacturing and selling our Ithaca® 9700 and 9800 food safety terminals. On July 16, 2012, we filed our answer, affirmative defenses and counterclaims, seeking all available damages including legal fees. A hearing on the plaintiff's motion for preliminary injunction took place in August 2012, and in November 2012, the Court denied this request. AD filed an appeal of the Court's ruling to the Eleventh Appellate District, which heard oral arguments on the appeal on July 16, 2013. On July 23, 2013, AD requested that the Eleventh Appellate District enjoin our further sale and marketing of the food safety terminals, pending the Court of Appeals' decision. On July 29, 2013, we opposed this request. On October 15, 2013, the Eleventh District Court of Appeals affirmed the lower court's decision in our favor and denied AD's further request of an injunction pending the Court of Appeals' decision. On October 24, 2013, AD filed a motion seeking that the Court of Appeals reconsider its decision. On April 16, 2014, the Court of Appeals denied AD's motion to reconsider its decision. On July 28, 2014, AD filed a motion requesting leave from the Court to file an amended complaint and indicating that it has elected to pursue only its claim for damages, dropping its claim for injunctive relief. On September 4, 2014, the Court granted AD's motion to file an amended complaint. On September 25, 2014, we filed our answer, affirmative defenses and counterclaims with respect to the amended complaint, seeking all available damages including legal fees. On January 30, 2015, we filed a motion for summary judgment seeking judgment in our favor on all counts as to the Company. On the same day, AD filed two motions for partial summary judgment. On February 17, 2015, we opposed both of AD's motions, and AD opposed our motion. On February 23, 2015, the Company filed a reply brief in support of its motion for summary judgment. A trial was scheduled to begin on April 21, 2015; however, on March 25, 2015 the parties executed a confidential settlement agreement and release (the "Settlement Agreement") in which the parties mutually agreed to resolve the dispute that was the subject of the lawsuit filed by AD against the Company to the parties' mutual satisfaction. Under the terms of the Settlement Agreement, we agreed to pay AD $3,600,000 payable on or before April 8, 2015 and also to qualify certain AD labels for use on our food safety terminals at an estimated cost of $25,000. We made the $3,600,000 payment to AD on April 8, 2015 and borrowed $2,500,000 under our revolving credit facility with TD Bank to fund the payment. We recorded the total expense of $3,625,000 in the fourth quarter 2014 as an operating expense included in the line item "Legal fees and settlement expense associated with lawsuit" on the Consolidated Statement of Operations and as a current liability included in the line item "Accrued lawsuit settlement expenses" on the Consolidated Balance Sheet. In the second quarter of 2015, we reversed $25,000 of this expense because AD did not provide the label testing information by the due date required per the settlement agreement.

TRANSACT TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

8. Accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers." This ASU is intended to clarify the principles for recognizing revenue by removing inconsistencies in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. In April 2015, the FASB voted to defer the effective date of the new revenue recognition standard by one year. As a result, the provisions of this ASU are now effective for interim and annual periods beginning after December 15, 2017. We are currently evaluating the impact this ASU may have on our consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". This ASU established specific guidance to an organizations' management on their responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern. The provisions of ASU 2014-15 are effective for interim and annual periods beginning after December 15, 2016. This ASU is not expected to have an impact on the Company's financial position, results of operation or cash flows.

In July 2015, FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." This ASU changes the measurement principle for inventory from the lower of cost or market to lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The provisions of this ASU are effective for years beginning after December 15, 2016. This ASU is not expected to have a significant impact on our financial statements or disclosures.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." This ASU eliminates the requirement to present deferred tax assets and liabilities as current and noncurrent on the balance sheet. Instead, all deferred tax assets and liabilities are now classified as noncurrent. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. We will prospectively adopt ASU 2015-17 as required in the first reporting period for the year ending December 31, 2017.

In February 2016, the FASB issued ASU 2016-02, "Leases." The core principle of this ASU requires that a lessee should recognize the assets and liabilities on the balance sheet and disclose key information about leasing arrangements. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods. We are currently evaluating the impact this ASU may have on our consolidated financial position, results of operation or cash flows.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting." This ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and accounting for forfeitures. The provisions of this ASU are effective for years beginning after December 15, 2016. We are currently evaluating the impact this ASU may have on our consolidated financial position, results of operation or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Certain statements included in this report, including without limitation statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "be "project" or "continue" or the negative thereof or other similar words. All forward-looking statements involve risks and uncertainties, including, but not limited to those listed in Item 1A of our most recently filed Annual Report on Form 10-K. Actual results may differ materially from those discussed in, or implied by, the forward-looking statements. The forward-looking statements speak only as of the date of this report and we assume no duty to update them. As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to "we", "us", "our", the "Company" and "TransAct" refer to the consolidated operations of TransAct Technologies Incorporated, and its consolidated subsidiaries.

Overview

TransAct Technologies Incorporated ("TransAct") is a global leader in developing and selling software-driven technology and printing solutions for high growth markets including food safety, POS automation, casino and gaming, lottery, mobile and oil and gas. Our world-class products are designed from the ground up based on market and customer requirements and are sold under the AccuDate™, Epic, EPICENTRAL™, Ithaca®, Printrex® and Responder® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers and terminals generate top-quality labels and transaction records such as receipts, tickets, coupons, register journals and other documents, as well as printed logging and plotting of data. We sell our products to original equipment manufacturers ("OEMs"), value-added resellers ("VARs"), select distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. TransAct also provides world-class service, spare parts, accessories and printing supplies to its growing worldwide installed base of products. Through our TransAct Services Group ("TSG"), we provide a complete range of supplies and consumables used in the printing and scanning activities of customers in the hospitality, banking, retail, casino and gaming, government and oil and gas exploration markets. Through our webstore, www.transactsupplies.com, and our direct selling team, we address the demand for these products. We operate in one reportable segment: the design, development, assembly and marketing of software-driven technology and printing solutions including related software maintenance, hardware repair services, consumables and spare parts.

Critical Accounting Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America. The presentation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, inventory obsolescence, the valuation of deferred tax assets and liabilities, depreciable lives of equipment, warranty obligations, and contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances.

For a complete description of our accounting policies, see Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, "Critical Accounting Policies and Estimates," included in our Annual Report on Form 10-K for the year ended December 31, 2015. We have reviewed those policies and determined that they remain our critical accounting policies for the nine months ended September 30, 2016.

Results of Operations: Three months ended September 30, 2016 compared to three months ended September 30, 2015

Net Sales. Net sales, which include printer, terminal and software sales, as well as sales of replacement parts, consumables and maintenance and repair services, by market for the three months ended September 30, 2016 and 2015 were as follows (in thousands, except percentages):

	Three months ended September 30, 2016		Three months ended September 30, 2015		Change $	Change %
Food safety	$ 969	6.7%	$ 1,107	7.8%	$ (138)	(12.5%)
POS automation and banking	2,889	20.0%	2,274	16.1%		